



New Mexico Association of Regional Councils

White Paper on **Improving Capital Outlay Planning, Funding & Management**

December 16, 2011

Executive Summary

NewMARC serves New Mexico from top to bottom: representing and serving 137 local governments (towns, cities and counties), as well as many rural unincorporated communities, water associations, tribes and land grants.

We are 7 regional planning councils, formed and designated for 40 years by State and Federal government, and owned and empowered by Local government.

We have strategic partnerships with agencies, stakeholders, Native American tribes and community leaders across the political, geographic, program and policy spectrums.

We are planners, researchers, advisors, technical assistants, coaches, problem-solvers, resource-linkers, grantsmen and public servants on behalf of our governmental members.

We are also liaisons, bridges, trainers and facilitators between Federal, State and Local governments, and between sectors, jurisdictions, agencies and interests within our regions. We operate at the nexus point between all of these stakeholders – working to inform, connect and add value wherever we are needed. We are “regional hubs” that help deliver services and programs to local communities, while working to build sustainable and competitive regional economies.

We are public sector, but we engage and collaborate with the private, nonprofit and philanthropic communities. We are a-political, but we support the work of elected officials and staff at the state, federal and local levels alike.

From this base of operation, capacity and relationship, we offer our recommendations on improving the capital outlay process in New Mexico. In summary:

- ★ **Rules of Order**—Adopt a coherent capital outlay program which includes rules and procedures to provide order and efficiency to the process, and which specifies the respective roles and relationships of the executive and legislative branches.
- ★ **Planning & Project Development**—Provide a robust and predictable funding mechanism to support project planning and development, thus ensuring that the State considers only well-planned, action-ready, “Grade A” projects for capital investment.
- ★ **Regionalization**—Utilize the COGs to provide forums, trainings and consultations with legislators and local agencies to review and assess capital outlay projects within their respective regions.
- ★ **Invest in the COGs**—Provide mechanisms, such as a 1% set-aside from all capital outlay appropriations, for funding to the COGs to coordinate the overall capital outlay project development and management process in each region.
- ★ **ICIP**—Further strengthen and institutionalize the *Infrastructure Capital Improvement Plan (ICIP)* as a meaningful planning and decisional tool in the capital outlay process, and as part of the process, require all applicants to provide assurances to appropriators that the local entity has the capacity to take on new capital improvements.
- ★ **Prioritizing**—Utilize the COGs to implement a review and ranking system on a region-by-region basis, further streamlining project review and approval by the Legislature and Administration. Include in the capital outlay application and approval process a rigorous screening protocol that follows established criteria, including a “triage” screen that characterizes projects from the concept stage through project-ready status, thus greatly streamlining the review and approval process at the State level.
- ★ **Funding Sufficiency**—Adopt policies to ensure that appropriations are made in sufficient amounts to complete projects as proposed.
- ★ **Leveraging**—Require all applications for legislative capital outlay to present a number of other funding sources (local, state, federal and other) that can be leveraged for the proposed project; legislative appropriations should serve as leveraging funds and hopefully will not be the sole source of funding for a project.
- ★ **Standardization & Coordination**—Establish protocols to standardize administrative methods across State agencies governing reimbursement, accounting, monitoring and reporting in connection with State appropriations.
- ★ **Nonprofits**—Adopt a policy that requires concurrence by local host governments before appropriations are made to fund nonprofit proposals.

As New Mexico's population and communities continue to grow and evolve, our COGs remain prepared to play a **critical role in generating prosperity and progress** across our regions and State. While each COG will face its own unique issues, we will continue to work and partner across jurisdictional boundaries and across regional lines to pursue new opportunities for our regions, for our communities and for the State.

Capital Outlay Issues

Over the past six years (with the exception of last year) the State Legislature has debated and vetted nearly **1,400 capital outlay requests** totaling more than **\$7 billion** in infrastructure, transportation, facility, and other capital expense requests. The COGs have worked with each region's legislators to promote and implement proposals from their respective districts.

In recent years, the Legislature and Governor have awarded more than \$1.3 billion to local governments and other eligible entities to establish and upgrade fixed assets. The capital projects funded through the Capital Outlay Fund Program are in most cases basic – yet essential – ingredients to improving capacity, quality of life and economic competitiveness of the State's local incorporated and unincorporated communities.

The COGs play an instrumental role in ensuring that local officials and partners within each region are prepared, organized and represented during the Capital Outlay Fund Program application and project selection process. Whereas the application and project request priorities are the responsibility of local governments and their partners, the COGs understand that program funds provided by the Legislature and Governor are discretionary and that funding priorities are set by the Legislature and Governor. The Capital Outlay funding process is a team effort: local governments, Legislators and the Governor.

The COGs are involved in almost every aspect of the Capital Outlay Program, assisting local governments in the development of their Infrastructure Capital Improvement Plans (ICIP), which are the 5-year plans and project priority lists required by the State. The **COGs** also help the local governments with **technical assistance, training programs and preparation** of their funding requests and applications.

Prior to the legislative session, the COGs coordinate town hall forums and other meetings for state lawmakers from the region to review and learn more about local proposals. This helps garner support for the region's projects during the review and funding process.

In many cases, the COGs develop a **comprehensive resource guide** that helps state and local leaders prepare for the review and funding process. The guide outlines each funding request from the region, including details on the amount requested, sponsors of the project, and funds committed. The COGs also assist local governments with presentations when necessary.

Once the final project selections are made by the Legislature and Governor, the COGs work with the Department of Finance and Administration to determine the **readiness** of individual projects. The COGs also assist local officials with **project administration** and management to ensure that projects proceed in a timely and accountable manner.

By using their skills as regional facilitators, advocates and project managers, the COGs have helped improve economic competitiveness and local community pride throughout the region. Projects such as water system improvements, domestic violence shelters, hospital

and/or Senate on the funding of critical and needed local projects that had a major impact on a locality. Once the Governor's list of priorities was completed, the list would be sent to both the House and Senate for review and adoption, i.e., at the same time that each chamber was debating and adopting their Capital Outlay recommendations. Eventually, the three recommendations would go to a conference committee and a **fiscally constrained compilation** from all three lists of priorities would be adopted and funded by the Legislature.

In anticipation of a revenue shortfall of approximately \$650 million in FY 2010, a special Legislative Session was held in October 2009 to deal with the massive fiscal problems the State would be facing. The Legislature passed HB 17 as part of a solvency plan to address the shortfall. As a part of the HB 17 process, the Legislative Council Service, the Legislative Finance Committee and the Department of Finance and Administration were mandated to identify a minimum of **\$150 million** of capital outlay projects that could be **voided**. Targeted projects were the ones that had been funded in years past and did not have a legally binding contract with contractors, a third party or vendor to purchase professional or other services. Capital Outlay took on a new look, and proposed and funded projects came under much **closer scrutiny** by State agencies, the Legislature and the Governor. The result has been that little, if any, Capital Outlay funding has been appropriated as the State continues to experience financial constraints.

Recommendations

The need continues to exist for a Capital Outlay Program of some type and funded at some level for the State of New Mexico and local government entities. The problem is accentuated for many smaller communities faced with capital improvement needs and very limited or non-existent capital resources. However, this is also the appropriate time to take a close and serious look at Capital Outlay—its existence and how it functions, its purpose and actual use, the process, its goals, how projects are defined, and much more to improve the effectiveness and efficiency of delivering a product of true value to the residents of New Mexico.

For years, the members of NewMARC (the seven Councils of Governments and Economic Development Districts) have been partners with local governments, Legislators and State Government in the Capital Outlay process. We would like the opportunity to offer the following recommendations to the Governor, the Legislative leadership and their respective staff on issues that need to be considered or addressed that will improve the process, delivery and implementation of the Legislative Capital Outlay Program in New Mexico.

- 1) **New Rules to Strengthen the Process.** Let's take a look at the origins of the Legislative Capital Outlay Program. Perhaps a **statute or new rules and regulations** adopted by the Department of Finance and Administration could be a beginning point. The rules and regulations would allow and create definitions, processes to include regional vetting mechanism, identification of statewide goals and priorities for the funds, identification of eligible entities and establishment of implementation timelines. The rules and regulations or statute would be subject to review by the House Taxation and Revenue Committee's Sub-Committee on Capital Outlay and approval by the Legislature and Governor.

funding of projects. A starting point may be to look at the CDBG vetting process and modify the review and rating mechanism that will allow for projects with the greatest need or impact in a county or region to rise for legislators in that county or region, as recommendations for funding.

Along with NMFA, the Municipal League, the Association of Counties, DFA and NewMARC, the Legislature should use a **project review and ranking system**, conceptually similar to the system presently used by the Long-Term & Aging and Public Schools Capital Outlay programs.

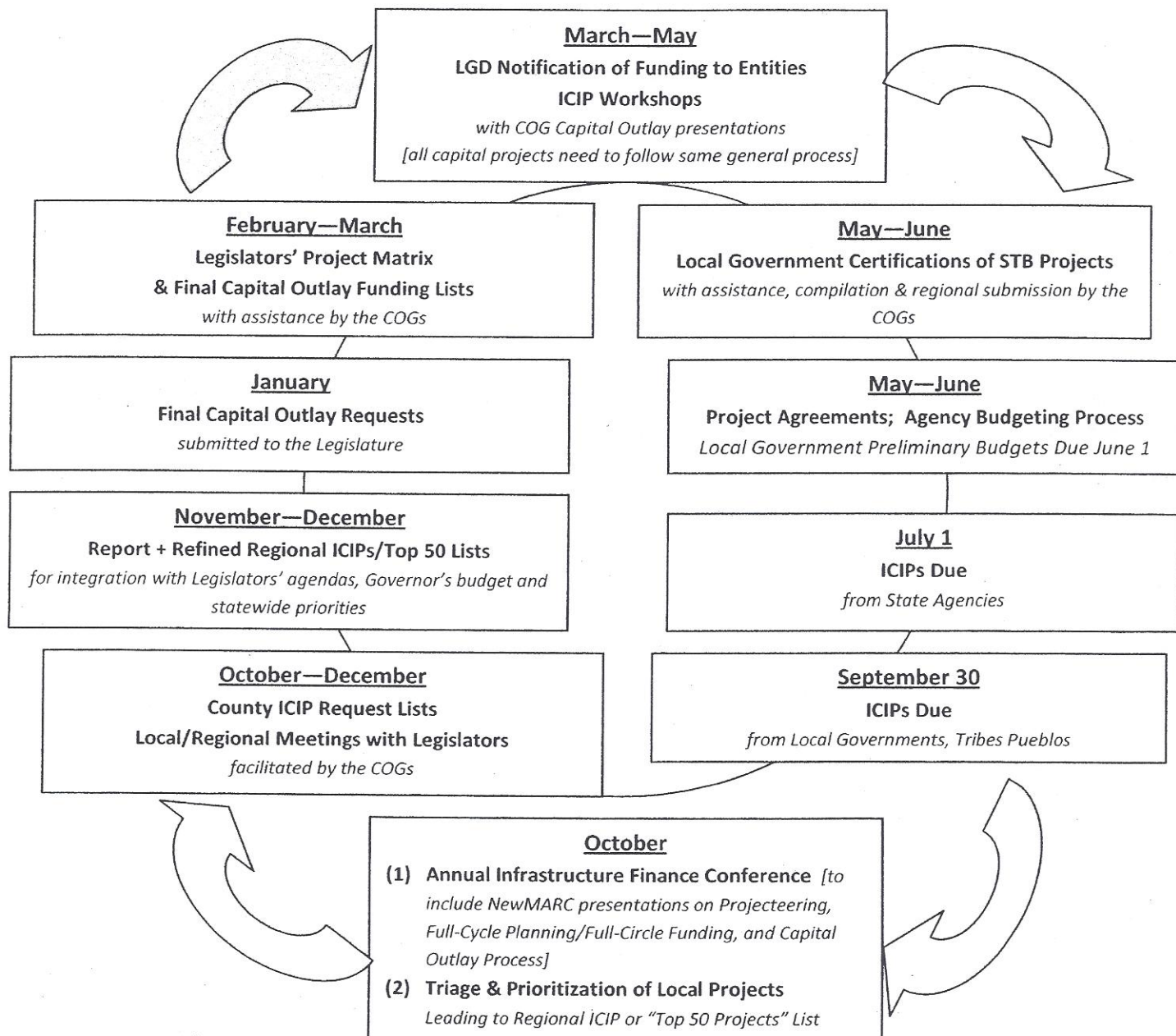
- 8) **Funding Sufficiency.** Provide **sufficient funding** to a project to complete a useable phase of the project, whether it is for planning, construction or purchase. Even if it would mean funding fewer projects statewide, the State and communities would be better served knowing that projects will be funded to a level that allows for a **completed project**; for example, to actually provide water distribution, wastewater collection or treatment, transportation, purchase of equipment or water rights, or full construction of senior services and community centers. Little is gained from providing a community with \$25,000 toward a \$500,000 project!
- 9) **Leveraging.** Encourage the use of Capital Outlay funding, when possible, to be used as **leverage for other funds**, especially federal funds, so that "more bang for the buck" can be realized from the use of state dollars. Encourage entities to search for funding assistance from the Economic Development Administration (EDA), United States Department of Agriculture (USDA), Environmental Protection Agency (EPA), Bureau of Indian Affairs (BIA), Rural Utility Service (RUS), Natural Resource and Conservation Service (NRCS), United States Department of Transportation (US DOT) and other funding agencies.
- 10) **Reauthorizations.** Allow funding for a project to be re-authorized only once. The re-authorization may only be used for requesting a one year extension period to complete a project. The re-authorization should not allow for transfer of the Capital Outlay funds from one state agency to another, an entire change to the project scope, or the transfer of carry-over funds to another project.
- 11) **Standardization.** Standardize the method and process for payment, reimbursement, reporting and monitoring of projects between the various state agencies to whom Capital Outlay projects are assigned (DFA/LGD, NMEDD, NMED, NM DOT, NMLTC&A).
- 12) **Nonprofits.** Nonprofit agencies that do not submit ICIPs and must work through local governments to have their projects considered (little leagues, veterans organizations, community organizations, etc.) must be required to meet with host government to have projects **included in the host government's ICIP**. This process accomplishes two goals: (1) the local government knows an application is being submitted for capital improvements from an outside entity, and is not surprised when it is funded; and (2) the local government and the requesting entity can consult on the long-range impact on maintenance and operation costs, insurance and other considerations related to the project being implemented.

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NewMARC
New Mexico Association of Regional Councils

Proposed
New Mexico
CAPITAL OUTLAY ANNUAL TIME CYCLE



PROJECT READINESS TRIAGE

Grade E

A preliminary idea based on an identified need, but with no shape to a project plan.

Grade D

Preliminary project description, needs assessment, statistical data & clearer direction ... but still no specific project plan.

Grade C

Scope of the project is getting honed, feasibility assessment is done, community stakeholders are involved & supportive, and there is a ball-park sense of all pieces involved, including cost.

Grade B

Preliminary Engineering Report, budget estimates, clearances, specifications, ownership documents, etc. are all complete.

Grade A

Fully planned & investable, with fully vetted plans & specs, clearances, budgets, commitments, & multiple funders ready to pitch in.

BEGINNER

Projects in infancy stage, needing preliminary planning & development, with results to be achieved beyond a 3-year horizon.

INTERMEDIATE

Projects are in motion, approaching a stage of readiness, but need additional planning & development dollars to move into the Advanced stage; potentially implementable within a 1-to-3-year timeframe.

ADVANCED

Projects demonstrate a high degree of readiness ("shovel-ready"), sufficient to access immediate funding & investment opportunities.

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CAPITAL OUTLAY PROJECT PROSPECTUS

- I. **REQUESTOR.** Who is the formal, official requesting party? With whom should the potential Funder communicate regarding this initiative? Names? Positions? Addresses? Emails? Numbers? Provide a brief description of the organization – its legal status and governance; who's in it; what it works on; what it has achieved; etc. Who will be accountable for the funds received? Who is the project owner? Who will sustain the initiative in the future?
- II. **PROJECT TITLE.** What title do you want your project to be known by? (simple, relevant & easily referenced)
- III. **SUMMARY PROPOSAL OR REQUEST.** What do you want the Funder (and its awarded funds) to do? How much money do you need, for what general purposes, and to achieve what outcomes? How does this project relate to the interests and priorities of the Funder? (simple, straightforward, direct; descriptive of the project itself)
- IV. **BACKGROUND**
- A. **LOCATION**
- Where will funded/authorized activities take place? Do you have maps (for the appendix)?
 - In which State or Federal Legislative Districts will funded/authorized activities take place?
Senate District: _____ House District: _____
Congressional District: _____
- B. **PROBLEM/NEED**
- What community needs, problems or goals will be met by the project? What needs fixing? What negative conditions need remedy? Is there documentation to substantiate your representation?
 - How many people are impacted by the need, problem or goal, and to what extent?
 - Why is there a lack of local and/or other resources required for the remedy?
- C. **PROJECT DESCRIPTION**
- What will the project directly do with the funding or other resources received? What will the funds directly cause to happen? How will the project be implemented: Who? What? Where? When? How?
 - Who owns the capital asset, and who is liable for operations, maintenance and replacement (OM&R)?
 - When it's all said and done, what specific outcomes will the project grantee be able point to? What will be the "return on public investment"?
- D. **BENEFICIARIES**
- What public or nonprofit entity will receive the financial, institutional, statutory or other benefits of this initiative? What other groups will benefit?
 - Who are the citizens who will benefit from this action? What are the demographics?
- V. **BUDGET**

PROJECT EXPENSE CATEGORIES		REQUEST (funder portion)	OTHER SOURCES	TOTAL PROJECT BUDGET
a.	Administration	\$	\$	\$
b.	Architecture & Engineering	\$	\$	\$
c.	Other Professional	\$	\$	\$
d.	Inspection	\$	\$	\$
e.	Property Acquisition	\$	\$	\$
f.	Construction &/or Rehabilitation	\$	\$	\$
g.	Contingencies	\$	\$	\$
TOTAL, Project Costs:		\$	\$	\$
OTHER REVENUE SOURCES:	1. Grantee		\$	
	2.		\$	
	3.		\$	
Annual Operations, Maintenance & Replacement (OM&R) Cost: [Costs to operate, maintain &/or replace the capital investment]			\$	
OM&R REVENUE SOURCES:	1. Grantee		\$	
	2.		\$	
	3.		\$	